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SUBJECT: LEBANON: NEW SALARY MEASURES COULD BREAK THE BUDGET
(ECONOMIC WEEK IN REVIEW, DECEMBER 8 - 14, 2008)

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MPS APPROVE COSTLY MEASURES
THAT COULD BREAK THE BUDGET

[1](#)1. (SBU) On December 11, a parliamentary committees approved a set of measures which, if implemented, will put a significant additional burden on state finances. While the measures still require approval by the full parliament, their passage would dramatically increase Lebanon's already huge budget deficit, and prevent the government from meeting its Paris III budget commitments.

[1](#)2. (SBU) The committees approved the minimum wage and across the board public sector salary increase, as passed by the cabinet September 9. The full parliament is likely to vote on and approve this law early next week. Finance Minister Chatah told us previously that this measure will cost the Treasury approximately \$500 million annually, and though the cabinet approved four measures meant to cover half of this additional cost, Chatah acknowledged that this measure will increase the deficit.

[1](#)3. (SBU) In addition, the committees approved the payment, over three years, of \$800 million in salary arrears for civil servants and members of the armed forces who did not receive an authorized salary increase during the period 1996-1998. Opposition MP Yassin Jabir told us December 12 that Opposition Leader Michel Aoun proposed the draft law on this issue, and March 14 decided not to object in an election year, despite the fiscal pressure it would put on the state. The committees also approved a five percent salary increase for teachers, and a 20 percent salary increase for army soldiers deployed outside their barracks. These measures will cost the treasury an additional \$53 million annually.

ENERGY MINISTER IS WORKING ON NEW
ELECTRICITY TARIFF STRUCTURE

14. (SBU) On December 11, national power utility Electricite du Liban (EDL) Chairman Kamal Hayek told us Minister of Energy and Water (MEW) Alain Tabourian is in the process of fine-tuning a new electricity tariff structure after receiving some recommendations on it from PM Siniora and Finance Minister Chatah. Hayek said Tabourian's proposal was well-structured, would be acceptable to different socioeconomic groups, and would provide much-needed income to the treasury. He added, "If this proposal does not pass in the cabinet, then it means there is no political will to improve EDL's financial situation." The current tariff structure dates back to 1994, when oil prices were 15-16 dollars a barrel, he said. A senior source at the Finance Ministry confirmed that Tabourian was finalizing the new tariff structure and will hopefully submit it to the cabinet this month. (Note: A revised tariff structure is one of the benchmarks in the new IMF Emergency Post Conflict Assistance (EPCA) program. The USG will soon condition part of its Paris III budgetary support on the implementation of this reform. End note.)

WORLD BANK DELEGATION PRAISED
BUDGETARY REFORM

15. (U) After meeting with Finance Minister Mohammad Chatah on December 5, a World Bank (WB) delegation praised the progress achieved in budgetary reform and indicated that the WB plans to expand support at a later stage to include reforms in the field of higher education, linking it to the job market, according to local press reports.

TELECOM MINISTRY WILL TAP
DIASPORA FOR ICT EXPERTS

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16. (SBU) Minister of Telecommunications Gebran Bassil will hold a conference, called "Telecom for Lebanon- Tapping the Diaspora," to include telecom experts from the Lebanese diaspora. The event, which Bassil conceived as a way to attract homegrown talent back to Lebanon, is meant to be a forum for expatriates to share their knowledge on telecom liberalization, as well as to help develop strategic telecom projects to stimulate economic growth and turn Lebanon into a hub for the MENA. The conference, to be held December 29 in Beirut, is co-organized by Berytech Technology Pole (an incubator for ICT start-ups), the Partnership for Lebanon (a U.S. private sector initiative), and the Telecommunications Regulatory Authority (TRA).

IPR TRAINEES EXPRESS
SATISFACTION WITH USPTO PROGRAMS

17. (SBU) On November 26, EconOff and staff met with Dr. Colette Raidy and Rasha Hamra from the Ministry of Public Health (MOPH), following their participation in the USPTO IPR Patent Advanced and Patent Basic programs respectively. While both were very satisfied with their programs, Hamra wished that her program had focused more on pharmaceutical issues. They also suggested the training could include time at the Food and Drug Administration (FDA), which would be more specific to the MOPH's needs and highly beneficial for them in terms of registration and pricing of drugs. Raidy and Hamra noted that one obstacle to effective drug registration and IPR enforcement in Lebanon was the lack of any link between the databases of the MOPH and the Ministry of Economy and Trade, where patents must be registered.

18. (SBU) Meanwhile, Judge Ziad Abou Haidar, who attended the USPTO Enforcement Program for Prosecutors in October 2008, considered that attending live proceedings was the most beneficial part of his training.

INDUSTRIAL EXPORTS RISE IN
FIRST NINE MONTHS OF 2008

¶9. (U) According to the Ministry of Industry (MOI), industrial exports rose by 31.2 percent to \$2.27 billion during the first three quarters of 2008 compared to the same period in 2007. Metallurgical products comprised 20 percent of exports, followed by machinery (17 percent), and chemical products (14.4 percent). Imports of industrial equipment rose by 8.6 percent to \$134.5 million during the first three quarters of 2008 compared to the same period in ¶2007. Germany was the main source of imports for industrial equipment (25 percent), followed by Italy (23.32 percent), and China (15.54 percent).

IIF: LEBANESE BANKS REMAIN
WELL-CAPITALIZED AND HIGHLY LIQUID

¶10. (U) In its most recent report on Lebanon, the Institute of International Finance (IIF) indicated that there have been no noticeable repercussions of the global economic crisis on Lebanon, noting that sovereign spreads increased less than in other emerging markets in October and November 2008. The banking sector's regulatory framework limited banks' exposure to structured products, and remains well-capitalized and highly liquid. The IIF warned that the main risk to Lebanon's outlook was the potential for instability in the run-up to the parliamentary elections in 2009. The report projected GDP growth at 5.5 percent in 2008, 3.5 percent in 2009, with inflation to average 12 percent in 2008. It estimated the primary surplus to exceed two percent in 2008. The IIF also indicated that the GOL will face financing needs of around \$5.5 billion in 2009, but would meet them mostly from the market and donors.

BYBLOS BANK ACQUIRES LEBANESE
BRANCH OF BANCA DI ROMA

¶11. (U) Local financial pres reported that on December 1 Byblos Bank approved the acquisition of all the assets, equity, and

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obligations of the Lebanese branch of Italy's Unicredit Banca Di Roma (BDR) SpA. In 2007, the Lebanese branch of BDR posted total assets of \$80 million, compared to Byblos Bank's \$10.86 billion at end-September 2008. In 2006, BDR closed four of its five branches in Lebanon. BDR was one of the first international banks to operate in Lebanon in 1919.

MOODY'S RAISES LEBANON'S
OUTLOOK TO POSITIVE

¶12. (U) On December 11, Moody's Investors Service changed its outlook on Lebanon's sovereign debt rating to positive from stable. To justify its improved outlook, Moody's cited the proven resilience of Lebanon's public finances to shocks, as well as the achievement of all the objectives endorsed at the Doha Conference (a new president, a consensus cabinet, and a new electoral law). Moody's indicated that Lebanon was one of the few countries so far actually to benefit from the global economic crisis, as the Lebanese diaspora has moved funds into Lebanon's seemingly safer banks. Nonetheless, Moody's noted that the country still presents a substantial credit risk, since the political situation remains fragile and tensions could grow before the parliamentary elections in 2009.

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